THE SPENDING REVIEW PLANS FOR LOCAL GROWTH FUNDING
A preliminary assessment

The new architecture

The UK government's Spending Review, published on 11 June, establishes four funds kicking in from April 2026.

A NEW LOCAL GROWTH FUND

- For "specific mayoral city regions in the North and Midlands".
- Nothing therefore for many parts of England, including for example Lancashire and Staffordshire (both without Mayors) or Cornwall (previously well-funded by EU and UKSPF).
- Total funding not presently specified but will include a 10-year capital settlement.
- No details at present on priorities or management.

INVESTMENT IN DEPRIVED COMMUNITIES

- Up to 350 deprived communities across the UK to be targeted.
- Includes the 75 towns already identified for funding from the *Plan for Communities* (formerly the *Long-Term Plan for Towns*).
- That leaves up to 275 additional communities, of which 25 named places have been selected as 'trailblazers'.
- £20m over ten years for each of the 75 towns and trailblazers points to total spending in 350 places of £700m a year.
- Trailblazers appear to be electoral wards or Middle Super Output Areas with a population of 5-7,000. This points to a total population coverage of 1.5-2.0 million in the 275 additional communities.
- Trailblazers are predominantly in cites, and the very worst places on the Indices of Deprivation

A GROWTH MISSION FUND

- A small fund intended to directly support local economic growth
- Capital spending worth £240m over four years (£60m a year)
- Reference to 'project selection' suggests competitive bidding rather than allocation by formula (which is probably not unreasonable given the small scale of the fund).

A NEW RECYCLABLE MAYORAL GROWTH FUND

- To be included in the integrated settlement for mayors in the North and Midlands
- No further details presently available

Specifically for **Scotland, Wales and Northern Ireland**, for the three financial years beginning in April 2026 the Spending Review says:

- Funding for these schemes (i.e. the new local growth fund and the investment in deprived communities) "will be at the same overall level in cash terms as under the UK Shared Prosperity Fund in 2025-26".
- In practice that means[1]:
    - £230m for Scotland (c.£75m a year)
    - £630m for Wales (c.£210m a year)
    - £135m for Northern Ireland (c.£45m a year)

How big a reduction in funding?

It seems clear that there has been a cut in funding. But just how much?

In the four financial years up to March 2026 the total funding from the UK government's six main 'levelling up' programmes[2], plus EU funding to the regions running on to 2023, was £13.8bn in total[3] or just over £3.4bn a year.

The Spending Review does not provide an equivalent figure but let's consider a plausible scenario. Let's assume that, as in the devolved nations, the annual funding in England for the new local growth fund and for deprived communities is the same as UKSPF funding in 2025-26. (If it's more the devolved nations will be facing a cut in their share).

[1] Based on 2025-26 UKSPF allocations from MHCLG.
[2] Levelling Up Fund, UK Shared Prosperity Fund, Towns Fund, Future High Streets Fund, Levelling Up Partnerships, Community Renewal Fund.
[3] HM Government data plus ICA estimate of EU run-on funding. The figure excludes Barnett consequentials of England-only funding and also excludes funding committed to the Long-Term Plan for Towns (now Plan for Neighbourhoods) but mostly to be spent after March 2026.

For the three financial years from April 2026, total UK funding would therefore be:

Local growth fund and deprived communities	£2,700m
Growth Mission Fund	£ 180m
Recyclable mayoral growth fund	?

All local growth funding	***£2,880+m***
per annum	*£ 960+m*

It seems unlikely that the recyclable mayoral growth fund will add much to these figures because the Spending Review would surely have highlighted a large financial commitment.

Of the £2,700m for the local growth fund and deprived communities, £1,700m would be available in England. If 280 of the 350 deprived communities (80%)[4] were to be in England, at £2m a year each (an annual total of £560m, or £1,680m over three years) this would absorb more or less the whole of the funding for England.

There are major implications here:

EITHER The government is set to cut the overall UK budget for local growth funding by more than two-thirds in cash terms (from £3.4bn a year to c.£1bn a year), and probably three-quarters after allowing for inflation.

OR The budget for a substantial new local growth fund in England is still to be determined.

What remains in play?

1. If the logic above is correct, a budget for the new local growth fund in England remains to be determined. This requires urgent and effective lobbying.

2. The activities eligible for support from the new local growth fund are also still to be defined.

3. The allocation of the new local growth fund between the various mayoral authorities will need to be sorted but will be less challenging than a formula covering all parts of the UK.

4. The management arrangements within mayoral authorities will need to be resolved. Where do local authorities fit in?

5. The role of local authorities in Scotland and Wales remains unclear. The Spending Review says “the Offices of the Nations will work with MHCLG to implement the new funding”. An appendix adds “working in partnership with” the Scottish and Welsh Governments.

[4] 20 of the 25 trailblazer communities are in England.

6. The selection of up to 250 additional communities to be supported is still to be determined.

7. The details of the Growth Mission Fund, including procedures for accessing the monies, need to be worked out.

8. Likewise, the details of the recyclable mayoral growth fund are missing and probably still to be determined.

As things currently stand, the government is set to let the levelling up funds established by the previous administration expire and is proposing replacements for the UKSPF that are worth less in real terms than in 2025-26 and substantially less than the EU funds the UKSPF replaced.

National Secretariat
Industrial Communities Alliance
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APPENDIX

The *Ambition Statement* agreed by the Labour MPs Group on Local Growth Funding: how do the Spending Review plans compare?

In December 2024 the Labour MPs Group on Local Growth Funding adopted an *Ambition Statement*. The Group's proposals are set out below alongside an assessment of the plans in the Spending Review.

- The present level of spending, at a minimum, needs to be maintained. Under the previous administration the principal 'levelling up' programmes, including EU monies rolled forward, were worth around £4bn a year in the last Spending Round. Uprating this for inflation would imply around £5bn a year in next spring's Spending Review[5].

  As things stand, a very large reduction in local growth funding is anticipated unless the new fund in England, for which there is presently no published budget, is very large indeed.

- The primary purpose of local growth funding needs to be economic development and regeneration. Our areas need more jobs and better quality jobs. If we can get the local economy right, much else will follow. This points to a mix of investment in people, place, infrastructure and business support.

  The plans for funding disadvantaged communities work against a focus on economic development because local economies operate at a much wider scale than neighbourhoods. The evidence from the New Deal for Communities initiative under the previous Labour government confirms that neighbourhood interventions do not reduce worklessness. Also, if only 1.5-2.0 million people are covered by the intervention in deprived communities, as looks likely, that doesn't offer anything to the UK's other 60+ million.

- Funding should be fairly allocated on the basis of need not competitive bidding, which is deeply wasteful of time and effort and does not necessarily deliver better results. Whilst most areas should expect a share of the funding, the less prosperous parts of the country with high levels of deprivation should be prioritised. Especially in the case of Wales, which presently receives high per capita funding because of its high levels of disadvantage, use of the Barnett formula should be avoided.

  Competitive bidding has been ditched, except probably for the new Growth Mission Fund. Use of the Barnett formula has been avoided. A focus within England on the North and Midlands is mostly a focus on less prosperous parts of the country.

[5] The sums quoted here have been corrected from an earlier draft.

- There should be full and timely consultation on the allocation formula. In view of the substantial sums at stake the formula needs to command confidence and the errors that characterised the identification of 'priority areas' by the previous administration need to be avoided.

  There is no commitment to a consultation process on allocation, but now that the decision has been taken to focus the new local growth fund on just a handful of mayoral authorities a consultation is possibly less essential.

- Funding needs to be allocated over a longer term than was the case under the previous administration. The commitment in the Budget to set five-year capital budgets, to be extended every two years at regular spending reviews, is welcome and should allow the development and implementation of genuinely transformative projects. Projects must be given good time to proceed and be completed, with an end to arbitrary deadlines that result in rushed or inefficient use of public money.

  For deprived communities, the allocation is for ten years. For other revenue funding it's three, but capital funding is promised for ten years in mayoral authorities.

- The government's intention to rationalise the number of local growth funds is also welcome. Whether the present funds should be replaced by a single fund, or whether there might be a smaller number of funds for specific purposes, is an operational question on which there should be consultation with local players.

  We seem to be looking at two main funds and two smaller funds.

- It makes sense to allocate funding at the sub-regional scale at which most local economies operate. Combined authorities within England generally fit this sub-regional model. Where combined authorities (or their equivalents in Scotland and Wales) are not in place, unitary and/or county councils might be expected to take the lead.

  The sub-regional principle has been adopted for some of the funding in England but there's also a focus on very small communities (5-7,000 people).

- Within each sub-region, at the discretion of local players there might still be schemes and initiatives that focus on specific districts or neighbourhoods. Collaboration and partnership across organisations should be encouraged, and additional funding levered in wherever possible.

  There's a focus on specific neighbourhoods, but not presently at the discretion of local players. UK government targeting of specific neighbourhoods smacks of micro-management and is likely to cut across the bows of local authorities.

- Central government should exercise a lighter touch in managing local growth funding. The expertise, knowledge and experience of local players, including elected Mayors, should be respected and they should be given greater discretion to determine priorities and actions within a broader framework set by the government. Where capability needs strengthening, central government should offer support.

  The finer details here remain to be determined, but the government's decision to intervene in specific neighbourhoods doesn't auger well.

- The devolved administrations need to be better integrated into the management of local growth funding. The devolved administrations are major players in their own economies, often with institutional structures that differ from those in England and with their own spending programmes that overlap with the objectives of the UK government's funding programmes.

  The intention is to work in partnership with the devolved governments but the arrangements aren't presently set out. Local authorities in Scotland and Wales will feel nervous because they do not want a return to a hierarchical model of funding delivery that puts the devolved administrations in the driving seat.